



Legislative Fiscal Bureau

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January 16, 2013

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Plans for Unsupported Overdraft Appropriations, 2011-12

Section 16.513 of the statutes requires state agencies to submit quarterly reports to the Department of Administration (DOA) on projected revenues and expenditures for each appropriation supported with program or segregated revenues. If it is projected that there will be insufficient revenues in the ensuing quarter to meet expenditures in any appropriation, the agency must submit a plan to DOA to "assure that there are sufficient moneys, assets, or accounts receivable to meet projected expenditures under the appropriation." If the plan is approved by DOA, it must then be submitted to the Joint Committee on Finance for its approval under a 14-day passive review process.

Over the past several years, DOA has been submitting plans to the Committee to address overdrafts that were realized two years ago. For example, in December, 2011 (the 2011-12 fiscal year), DOA forwarded plans for overdrafts that occurred in the 2009-10 fiscal year. The Committee met on that DOA submittal in February, 2012. At that meeting, the Committee voted 16-0 to require DOA to submit the plans to address any 2010-11 overdrafts by June 1, 2012, and to submit future plans within six months of the close of each fiscal year.

On December 28, 2012, DOA Secretary Huebsch submitted plans under s. 16.513 for unsupported overdrafts in 12 appropriations. The overdrafts were determined at the conclusion of the 2012-13 fiscal year. The submittal identifies 12 appropriations whose unsupported overdrafts totaled \$43.6 million.

Unless the Committee schedules a meeting to review the plans, the request will be approved on January 22, 2013.

A list of the overdrafts, by appropriation, follows:

2011-12 Unsupported Overdrafts

<u>Agency/Appropriation</u>	<u>Unsupported Overdraft</u>
<i>Administration</i>	
• Print, Mail, InfoTech	\$4,413,200
• Integrated Business Information System (IBIS)	8,098,900
• Grants for Substance Abuse	1,957,900
• Information Technology Investment Fund (ITIF)	2,739,900
<i>Agriculture, Trade and Consumer Protection</i>	
• Grain Inspection Program	866,900
<i>Corrections</i>	
• Juvenile Operations	13,216,500
<i>Health Services</i>	
• Internal Intra-Agency Programs	5,954,600
<i>Justice</i>	
• Crime Laboratories	2,290,000
• Penalty Surcharge Receipts	3,588,800
• Crime Information Alerts	158,000
<i>Military Affairs</i>	
• React Center	297,800
<i>Safety and Professional Services</i>	
• Chiropractic Examinations	<u>23,300</u>
Total	\$43,605,800

Administration

Printing, Mail, Communication, and Information Technology Services; Agencies. The Department of Administration (DOA) provides printing, mail processing, communications, and information technology (IT) development, management and processing services to state agencies. The Department assesses state agencies for these services.

This DOA appropriation has statutorily authorized forestalling authority. This authority allows DOA to spend in excess of the revenues received, to the extent that the non-depreciated assets under the appropriation offset the excess expenditures. In this case, assets such as IT equipment, sorting machines and other equipment that have a multiple year expected value are depreciated over the expected life of the equipment. Funding for the appropriation was \$102,652,400 PR in 2011-12. The negative cash balance of the appropriation was \$28,205,800 of which \$23,792,700 was supported by the non-depreciated value of assets, accounts receivable, and prepaid postage under the appropriation. As a result, the appropriation had an unsupported balance

of \$4,413,200 at the end of 2011-12. The unsupported cash overdraft at the end of 2010-11 was \$12,246,600 (2011-12 represents a \$7,833,400 decrease to the unsupported deficit).

The Department reports that the deficit is due to costs related to consolidation of data processing services among agencies which was completed at the end of 2009-10. The Department states that revenues to offset the costs have increased over time and "in fiscal year 2010-11, the department established a rate structure that supports full recovery of costs and partial recovery of the deficit." Further, DOA indicates that it "plans to continue setting rates to cover current costs plus an incremental deficit reduction amount as allowed by federal cost principles."

Integrated Business Information System. Under 2007 Wisconsin Act 20, the Department was required to implement, operate, maintain, and upgrade an integrated business information system (IBIS) for all executive branch agencies for the following: (a) all financial services (including accounting and auditing of payroll); (b) procurement; (c) human resources; and (d) other administrative duties. The Department was authorized to provide these services to any executive branch agency as long as those services could be provided efficiently and economically. Legislative and judicial branch agencies were allowed participate at their discretion.

The IBIS appropriation is PR-continuing appropriation with forestalling authority (described above). While DOA initially purchased hardware and software under the state's master lease program, the project was put on hold in April, 2008. As under the plan for 2009-10, DOA indicates that it "suspended further maintenance payments in order to give the Administration an opportunity to look at options of moving forward with an enterprise resource planning system. If the system is determined to be feasible, state agencies will be billed to recover the costs incurred in this appropriation when implementation occurs." As of the end of 2011-12, the appropriation overdraft was \$14,155,500, with support from undepreciated assets of \$6,056,600. As a result, the unsupported overdraft was \$8,098,900 as of June 30, 2012. The unsupported cash overdraft at the end of 2010-11 was \$8,199,100 (2011-12 represents a \$100,200 decrease to the unsupported deficit).

Grants for Substance Abuse Treatment Programs. The grants for substance abuse treatment programs appropriation receives funding from: (a) a portion of the drug abuse program improvement surcharge (DAPI), a 75% surcharge on fines and penalty surcharges imposed for violations of the uniform controlled substances act (Chapter 961); and (b) a \$10 drug offender diversion surcharge assessed for property crime convictions under Chapter 943. Monies from the appropriation may be expended to support grants to counties to enable them to establish and operate programs that provide alternatives to prosecution and incarceration for criminal offenders who abuse alcohol or other drugs, and for contracts to evaluate the program. The appropriation concluded 2010-11 with a deficit of \$1,997,300. The appropriation concluded 2011-12 with a deficit of \$1,957,900. [During 2011-12, the deficit was reduced by \$39,400.]

Under 2009 Act 28, annual expenditure authority for the appropriation was reduced from \$755,000 to \$7,500. Further, Act 28 increased the justice information system (JIS) surcharge from \$12 to \$21.50, specified that \$1.50 of the surcharge be provided to support grants under this program, and created a separate appropriation for receipt and expenditure of JIS revenues for the

program. The provisions of 2011 Act 32 continue to provide that funding for grants for the program continue to be supported by JIS revenue. Under 2011 Act 32, the grants for substance abuse treatment programs appropriation continues to be authorized \$7,500 annually in expenditure authority to fund contracts to evaluate the program.

During 2011-12, the grants for substance abuse treatment programs appropriation received \$46,900 in revenue from the DAPIS and \$10 drug offender diversion surcharge. The state accounting system indicates that through January 6, 2013, this appropriation has received \$20,800 in revenue. The s. 16.513 plan states that, "it is anticipated that the overdraft in appropriation 622 will be resolved by the continued receipt of surcharge revenue in excess of expenditures."

Information Technology Investment Fund. Under 1995 Wisconsin Act 27, the Legislature created the information technology investment fund (ITIF) as a source of revenue for the initiation and development of IT in state agencies. Revenue was to be generated from assessments on vendors doing business with the state. A grant program was established for state agencies for IT projects. The amount of estimated revenue was never realized and the grant awarded resulted in unsupported borrowing from the general fund. Under 1999 Wisconsin Act 9, the grant program was repealed and the ITIF was renamed the VendorNet Fund with a purpose of administering VendorNet and repayment of the loan to the fund.

A total of \$3,957,700 was initially borrowed against the general fund, of which \$111,500 was unspent and returned. Between 1998-99 and 2002-03 a total of \$862,200 was repaid from VendorNet fees (\$810,500) and revenue from other agencies (\$51,700). Between 2003-04 and 2011-12, all repayments came from DOA general program operations, totaling \$245,000, leaving a negative balance of \$2,739,000 (the 2011-12 deficit represents a \$25,000 reduction to the deficit from 2010-11). The Department's s. 16.513 plan states that it will continue to make payments toward the amount owed.

Agriculture, Trade and Consumer Protection

Grain Inspection and Certification. The Department of Agriculture, Trade and Consumer Protection (DATCP) conducts inspection, weighing and testing of grain shipped through the Port of Superior. The Department is authorized 21.0 positions for the grain inspection program, and is budgeted \$1,400,800 PR each year under 2011 Act 32. The program is supported by fees charged on the basis of either: (a) an hourly rate for the staff persons required; or (b) the type of service provided.

The PR continuing appropriation for grain inspection had a cash balance of -\$981,200 on June 30, 2012, with \$114,300 being supported by receivable income and \$866,900 being an unsupported overdraft. The unsupported portion of the overdraft increased by \$506,100, from June 30, 2011, when unsupported overdrafts were -\$360,800.

To partially address the accumulated negative balance, DOA is required under s. 16.56 of the statutes to transfer unencumbered amounts in DATCP's GPR general operations appropriations to the grain inspection PR account at the close of each fiscal year. In 2011-12, \$35,000 GPR was

transferred. To increase account revenues to more closely reflect program expenditures, a fee increase took effect September 1, 2011, following approval of the U.S. Department of Agriculture (USDA), which has authority for approving fee schedules pursuant to its delegation of inspection authority to DATCP for export shipments. The previous fee structure had been in place since 2004. It should be noted that USDA limits fee increases only to support current operating costs, and not to cover accumulated deficiencies. DATCP also reports it has entered into an agreement with USDA as of January 9, 2013, to conduct inspections and testing for grain shipments through the Port of Duluth. However, future shipping volumes and associated revenues are not known at this time. Volumes are significantly dependent on conditions in grain markets. For example, market conditions were favorable for U.S. exports in 2010-11, but became unfavorable in 2011-12, when shipping volumes declined substantially.

DATCP has adjusted staffing practices in recent years to minimize: (a) overtime; (b) seasonal layoffs, which in past years typically occurred when the Port of Superior closed for the winter, and resulted in DATCP paying unemployment costs; and (c) instances in which persons are on duty without any inspections taking place. The Department also has held several positions vacant throughout 2012. As of January 1, 2013, 7.0 positions were vacant, and the Department reports it has no immediate plans to fill the positions. The Department expects to provide services at the Duluth port using existing staffing.

The following table shows the condition of the grain inspection PR appropriation from 2009-10 through 2011-12. Section 16.56 transfers reflect the unencumbered amounts transferred from DATCP general operations appropriations. These amounts have declined in recent years, and transfers in upcoming years are expected to be insufficient to eliminate the accumulated negative balance. General fund transfers reflect \$55,700 transferred to the general fund in 2009-10, which was reinstated in 2010-11 due to concerns expressed by the Legislative Audit Bureau regarding the transfer from appropriations with negative cash balances as part of meeting biennial lapse requirements.

DATCP Grain Inspection Appropriation Condition

	Actual <u>2009-10</u>	Actual <u>2010-11</u>	Actual <u>2011-12</u>
Opening Balance	-\$470,900	-\$658,500	-\$425,200
Revenues	1,381,400	1,906,800	792,100
Expenditures	-1,520,200	-1,729,300	-1,383,200
General Fund Transfers	-55,700	55,700	0
S. 16.56 Transfers	<u>6,900</u>	<u>100</u>	<u>35,000</u>
Closing Balance	-\$658,500	-\$425,200	-\$981,300

As passed by the Legislature, 2011 Assembly Bill 40 would have required DATCP to report, to the Joint Committee on Finance by January 1, 2012, specific actions taken or administrative efforts planned to correct the annual and accumulated deficits in the grain inspection program. The Governor item-vetoed this provision in 2011 Act 32.

Corrections

Juvenile Correctional Services. The juvenile correctional services appropriation funds the operation of juvenile correctional facilities and certain aftercare services provided to juveniles following release from the facilities. Program revenue credited to the appropriation derives from daily rates charged by facility care that are paid by counties or the state for certain serious juvenile offenders. If monies generated by the daily rate exceed actual institutional costs in a fiscal year by 2% or more, the amounts in excess of 2% must be remitted to the counties during the subsequent fiscal year, in amount proportionate to the total number of days of juvenile placements at the facilities for each county and for the state.

The s. 16.513 submission indicates that the year-end deficit for the appropriation was \$13,386,300 in 2011-12, with an unsupported cash deficit of \$13,216,500. According to Corrections:

"As has been reported in prior §16.513 overdraft reports relative to this appropriation, the DCJ's juvenile institutions experienced declining populations over several fiscal years which resulted in reduced revenues available for juvenile correctional institution (JCI) operations. At the same time, the JCIs also incurred expenditures that were either unbudgeted or under-budgeted, such as employee salary and fringe payments. As a result of these factors, the juvenile correctional services appropriation has carried a negative year end balance for several years."

Revenues exceeded expenditures in 2011-12 by \$6,120,000, resulting in a reduction of the unsupported cash overdraft in the appropriation to \$13,216,500 in 2011-12. The Department identifies two factors for the decreased deficit: (a) the closure of Ethan Allen School for juvenile males and Southern Oaks Girls School, with juveniles transferred to Lincoln Hills School and the new Cooper Lake School for girls on the grounds of Lincoln Hills School, which reduced staffing and facility costs; and (b) a \$17 add-on to the daily rate in order to reduce the deficit. Corrections indicates that it will continue "to review juvenile institution operations with the intent to further contain expenses and retire more of the juvenile correctional services deficit."

Health Services

Internal Intra-Agency Programs. The Department of Health Services (DHS), Division of Long Term Care operates three residential treatment centers for individuals with intellectual disabilities -- Central Wisconsin Center in Madison, Southern Wisconsin Center in Union Grove, and Northern Wisconsin Center in Chippewa Falls. At Northern Wisconsin Center (NWC), DHS administers a short-term treatment program that specializes in serving adults and children with developmental disabilities that also have mental illness and aggressive or challenging behaviors. As of the end of November, 2012, there were 13 individuals participating in the program.

A program revenue appropriation to the Division permits DHS to expend all moneys it receives from other state agencies and all moneys transferred from other units within DHS to administer its programs and projects. DHS uses this appropriation to fund the costs of utilities and

maintenance of common areas and vacant buildings at NWC. At the end of 2011-12, the appropriation had an unsupported deficit of \$5,954,600. This deficit occurred because costs that were previously eligible for reimbursement under the state's medical assistance (MA) program are no longer MA-eligible, due to the reduction in long-term care services at that facility since 2004-05.

DHS indicates that it intends to address the deficit by: (a) seeking the approval of the Governor and the Joint Finance Committee to credit revenue from the future sales of surplus land at Northern Center to the appropriation; (b) applying any balances in the agency's annual operating budget to reduce the deficit; and (c) allocating all utility and common area maintenance costs in future years proportionately to state agencies on the NWC campus (Corrections and Veterans Affairs) so that the deficit will not continue to increase.

In addition, DHS recommends that the Department of Administration (DOA) assume responsibility for all power plant, utilities, maintenance, and grounds keeping operations at NWC, because DHS believes that DOA would be in a better position to reduce campus operations costs and implement a uniform cost allocation methodology. Finally, DHS indicates that the agency would consider moving its short term care unit from Northern Wisconsin Center to another location in the Chippewa Valley area, although such a move would affect infrastructure costs that would be borne by agencies that remained on the NWC campus.

Justice

Crime Laboratories; Deoxyribonucleic Acid Analysis (DNA). The crime laboratories; DNA analysis appropriation receives revenue from the \$13 crime laboratories and drug law enforcement surcharge, and the \$250 DNA analysis surcharge. Monies deposited to the appropriation support DNA analysis and the DNA databank, drug law enforcement, activities of the state crime laboratories, and DNA prosecution activities of the District Attorneys. The appropriation concluded 2010-11 with a deficit of \$4,236,600. The appropriation concluded 2011-12 with a deficit of \$2,290,000.

Under 2009 Act 28 (the 2009-11 biennial budget) the crime laboratories and drug law enforcement surcharge was increased from \$8 to \$13. This surcharge is applied if a court imposes a sentence, places a person on probation, or imposes a forfeiture for most violations of state law, or municipal or county ordinance. The administration indicates that increased fee revenue permitted the deficit in this appropriation to be reduced by \$1,946,600 in the fiscal year. The s. 16.513 plan indicates that, "if revenues from the increased fee remain constant, it will generate sufficient revenue to cover costs in future years and prevent the shortfall from growing, with the potential of moving this account to a positive position in the future." The Department of Justice anticipates that the appropriation will conclude the 2013-14 fiscal year with a positive balance.

Penalty Surcharge; Receipts. The penalty surcharge; receipts appropriation receives revenue from the penalty surcharge. Under current law, whenever a court imposes a fine or forfeiture for most violations of state law or municipal or county ordinance, the court also imposes a penalty surcharge of 26% of the total fine or forfeiture. Monies from the appropriation support

programs in the Departments of Justice, Public Instruction, and Corrections, the Office of Justice Assistance, and the Office of the State Public Defender. The appropriation concluded 2010-11 with a deficit of \$5,732,400. The appropriation concluded 2011-12 with a deficit of \$3,588,800. [During 2011-12 the deficit was reduced by \$2,143,600.]

The provisions of 2011 Act 32 provided that all unencumbered balances at the end of each fiscal year in all penalty surcharge supported appropriations revert to the penalty surcharge receipts appropriation under DOJ. The administration indicated that deficit reduction in the penalty surcharge fund during 2011-12 were attributable to three factors: (a) \$1,747,500 in accumulated, unspent, prior year balances from appropriations funded by the penalty surcharge reverted back to the penalty surcharge receipts appropriation; (b) \$258,500 in unspent and unencumbered penalty surcharge balances for 2011-12 reverted back from penalty surcharge funded appropriations to the penalty surcharge receipts appropriation; and (c) revenues exceeded authorized expenditure authority by \$137,600 in 2011-12.

Act 32 also provided that, notwithstanding s. 16.513 of the statutes, DOA is not required to submit a plan to the Joint Committee on Finance during the 2011-13 biennium to address the deficit in the penalty surcharge fund. This exception was provided to this fund during the 2011-13 biennium as under Act 32 the deficit in the fund was projected to decrease but not be eliminated during the biennium. The Department of Administration indicates that the penalty surcharge plan is provided to the Committee for "information only."

The administration indicates that, "If revenues remain constant, it is expected that revenues will exceed expenditures, stopping the growth of the deficit and reducing the overdraft."

Crime Information Alerts. The provisions of 2009 Act 358 created the crime alert network under s. 165.785. Under the program, DOJ may develop, administer, and maintain an integrated crime alert network to provide information regarding known or suspected criminal activity, crime prevention, and missing or endangered persons. In order to support the network, the Department may charge a fee to members of the private sector who receive information from and participate in the network. The Department has set the fee for private sector participants in the network at \$12 annually. During 2011-12, DOJ collected \$10,300 in fee revenue from these private sector participants. The state accounting system indicates that through January 6, 2013, the Department had collected \$7,100 in fee revenue from private sector participants in the current fiscal year.

The appropriation concluded 2010-11 with a deficit of \$46,900. The appropriation concluded 2011-12 with a deficit of \$158,000. [During 2011-12 the deficit increased by \$111,100.] The state accounting system indicates that through January 6, 2013, DOJ had expended \$68,700 to administer the crime alert network in the current fiscal year.

The Department of Justice indicates that, "Currently, the focus is on developing subscription revenue by soliciting businesses with multiple locations in the state and issuing public service announcements to alert the public to the existence of the Wisconsin Crime Alert Network and the services provided." The s. 16.513 plan states that, "The department expects this appropriation to be in deficit until the program is fully implemented and subscribers, paying the fee, are enrolled."

Military Affairs

REACT Center. The REACT Center is intended to serve as a search and rescue training facility for state and local first responders. The REACT Center has been created to train first responder personnel, including fire-fighters, law enforcement personnel, emergency medical technicians, military organizations and students to develop physical, mental, and leadership skills. The Department of Military Affairs indicates that the REACT Center concluded 2010-11 with a deficit of \$363,300. The Department indicates that the REACT Center concluded 2011-12 with a deficit of \$297,800. [During 2011-12 the deficit decreased by \$65,500.]

According to the s. 16.513 plan: "The department submitted a plan to decrease the deficit by reducing program expenditures and increasing revenues. Over the past year, the department reduced the number of staff by 1.5 LTE positions by reallocating duties among other positions, increased course offerings, developed new training options and established a contract with the U.S. Property and Fiscal Office to facilitate payments for training of military units. The department is anticipating that these actions will eliminate the deficit."

Safety and Professional Services

Chiropractic Examinations. The Department of Safety and Professional Services (DSPS), and the various examining boards attached to the Department, regulate and license certain professionals who work in Wisconsin. The Chiropractic Examining Board regulates chiropractors, chiropractic technicians, and chiropractic radiological technicians. Under provisions enacted as part of 2009 Wisconsin Act 28 (the 2009-11 biennial budget act), each applicant for a license to practice as a chiropractor must complete written and practical examinations administered by the Board, and pay the required examination fee. This requirement went into effect for applications made on or after January 1, 2012, with fees of \$75 for the written exam and \$1,435 for the practical exam 2012.

The program revenue appropriation that supports the costs of conducting these examinations had a deficit of \$23,300 at the end of 2011-12. This deficit occurred because only two applicants took the exam in that year, generating insufficient fee revenue to fund the \$26,000 in costs DSPS incurred to administer the exam, which included exam proctor and equipment costs. DSPS had previously assumed that approximately 30 applicants would take the exam annually. While more applicants have signed up for the exam in the current fiscal year than in 2011-12, DSPS plans to reevaluate the amount of the exam fee, and to attempt to reduce the cost of administering the written and practical exams.

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